LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

301 State House
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FISCAL IMPACT STATEMENT

LS 7699 | **DATE PREPARED:** Feb 20, 2001
BILL NUMBER: HB 1185 | **BILL AMENDED:** Feb 19, 2001

SUBJECT: Individual Development Accounts.

FISCAL ANALYST: Diane Powers
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FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State

STATE IMPACT	FY 2001	FY 2002	FY 2003
State Revenues			
State Expenditures		**920,000**	**1,640,000**
Net Increase (Decrease)		**(920,000)**	**(1,640,000)**

Summary of Legislation: (Amended) This bill eliminates the expiration clauses of the Individual Development Accounts Program. The bill expands the authorized uses of the individual development account to include: (1) reducing the principal amount owed on a primary residence that was purchased with money from an individual development account; and (2) expanding existing small businesses. It specifies that a qualified individual may use the account funds to pay for tuition, laboratory costs, books, and computer costs at an accredited institution of higher education, vocational school, or licensed or accredited training program.

The bill provides that a qualified individual includes a member of a household with an annual household income of less than 175% of the federal income poverty level. (Current law provides for a limit of 150% of the poverty level.) The bill allows the funds of an individual development account to be rolled over into an Indiana Family College Savings Program account. The bill reduces the maximum tax credits to $200,000. It appropriates funds to the Department of Commerce to distribute to community development corporations for program support costs incurred by the community development corporations if certain requirements are met. It also appropriates funds to the Department of Commerce to carry out the purposes of this act.

Effective Date: July 1, 2001.

Explanation of State Expenditures: (Revised) This bill extends the IDA program with the elimination of the July 1, 2001, expiration date. This program was established by P.L. 15 -1997 and allowed up to 800 individuals who receive Temporary Assistance to Needy Families (TANF) assistance **or** had income less than 150% of the federal poverty level to establish savings accounts. These accounts would receive a three-to-one match of state funds. The program limits the state match to $900 per account.

This bill expands the uses of the IDA account in the following areas:

1. Costs at an accredited institution of higher education, a vocational school, or an accredited or licensed training program, including tuition, laboratory costs, books, computer costs, and other costs associated with attendance.
2. Reduction of the principal amount owed on a primary residence that was purchased by the individual or dependent of the individual with money from an individual development account.
3. Expansion of an existing business.
4. Rollover into an Indiana Family College Savings Account.

This bill also expands the income eligibility from 150% to 175% of the federal income poverty level. This change will allow more individuals to be eligible for this program. Also these individuals would be eligible for the federal IDA program and could receive federal matching funds. In 1999, Indiana was awarded a grant of $930,000, renewable for five years, from the Asset for Independence Act (AFIA) which provides an additional three-to-one matching grant to individuals with IDA accounts. The federal program was recently amended to include individuals up to 200% of poverty. (S 3214 - 2001)

Over the first three years of the program, 45 community development corporations (CDCs) were approved to administer the program. Currently, 39 CDCs have enrolled 1,457 individuals. The table below shows the number of active savings accounts, along with the corresponding state and federal match.

Fiscal Year	Accounts	State Match	Fed Accounts	Fed Match
1998	351	$212,210		
1999	509	$327,777		
2000	978	$832,284	580	$399,852
Total		$1,372,272	580	$399,852

This bill appropriates **$200,000** to the Department of Commerce in each of FY 2002 and FY 2003 from the General Fund for the Department's use in providing program support to community development corporations.

The bill also makes appropriations from the state General Fund to the Department of Commerce for the specific amounts to be used as the state match for the IDAs. The current program limits the annual amount appropriated for each account to $900 for each account. An individual account may not receive more than four years of state matching funds. The IDA program also limits the number of accounts which can be established each year to 800. The maximum number of accounts which could exist when the program is fully implemented is 3,200 (since an account can only receive funds for four years.). **The bill appropriates $720,000 for FY 2002 and $1,440,000 for FY 2003.** For future years, the program will require approximately $2,160,000 in FY 2004, and $2,880,000 in years after to fully fund the maximum number of accounts (3,200) with the maximum potential match ($900).

Background: Currently, IDA program expenditures qualify under the state's Maintenance of Effort (MOE) requirements for the Temporary Assistance to Needy Families (TANF) program.

Explanation of State Revenues: This bill reduces the amount of tax credits that may be claimed by businesses who make a contribution to a community development corporation participating in the IDA program from the current level of $500,000 to $200,000. Over the first three years of the program, only one community development corporation used the credit for a total of $45,000. This change will reduce the state's exposure for this credit by $300,000 annually.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of Commerce; Department of State Revenue.

Local Agencies Affected:

Information Sources: Department of Commerce.